



TEXAS DEPARTMENT OF BANKING

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SUPERVISORY MEMORANDUM – 1009

April 3, 2014

TO: All State-Chartered Banks and Trust Companies;
All Bank and Trust Examining Personnel

FROM: Charles G. Cooper, Commissioner

SUBJECT: Business Plans and Strategic Planning¹

Background

This Supervisory Memorandum reinforces the Department's position on the importance of business plans and strategic planning for de novo banks and trust companies as well as for those institutions that have already been established. Clearly defined business plans and annual strategic planning are essential for the continuing success of an institution. This policy provides an overview of the components of a business plan and the strategic planning process, and addresses when a written business or strategic plan is required by the Department.

The Department considers a business plan to be primarily an externally focused document that provides detailed information on the proposed development of an organization. A strategic plan is an ongoing and internally focused plan which guides an organization's board of directors and employees on achieving the goals and objectives of the entity while adhering to its overarching mission.

Business Plans and Strategic Planning

Business Plans

The Department of Banking believes that a clearly defined business plan is an important ingredient to the initial success of any commercial enterprise. A business plan serves several purposes, specifically it: assists organizers and the board of directors to focus on their overall mission and goals; provides a means for the board of directors to communicate their objectives and strategies to management and staff; provides guidance to management in setting specific targets and business objectives; serves as a reference point for measuring performance; and assists potential investors and regulators in evaluating the organization's prospects.

A business plan is considered especially important when a new bank or trust company is being

¹ This revision replaces the November 29, 2010 issuance of Supervisory Memorandum 1009. Current changes include the increased emphasis on the importance of business plans and strategic plans and the removal of forms from the policy.

organized or when significant changes are contemplated or occurring. A detailed and comprehensive business plan should address the following:

- Marketing Plan
 - planned products and services;
 - market analysis;
 - economic analysis; and
 - competitive analysis;
- Management Plan
 - board of directors, senior executive officers and committee structure
- Operations Plan
 - risk management
 - policies, procedures and internal controls;
 - internal and external audit;
 - compliance management;
 - use of technology and electronic processing systems; and
 - use of vendors;
- Financial Objectives and Projections; and
- Monitoring and Revising the Plan.

The plan must reflect sound business principals and demonstrate a realistic assessment of risk given the economic and competitive conditions in the market to be served. A strong business plan can be achieved with in-depth planning by the institution's organizers and management.

Business plans submitted with corporate applications should provide at least three years' operating projections and should contain sufficient information to demonstrate a reasonable likelihood of success. The plan should identify the proposed markets to be served, products and services to be offered, projected profitability and capital adequacy, information technology infrastructure requirements, and managerial resources and capabilities. Pro-forma statements should include a detailed breakdown of all assumptions utilized in preparation of the data.

Generally, the business plan guidelines and financial projections and balance sheet format included in the [Interagency Charter and Federal Deposit Insurance Application](#) will be accepted in transactions involving a bank. Trust applicants should utilize the Proforma Financial Statements form found on the Department's website under the Trust Company section of the [Forms](#) page to support projections.

Strategic Planning

An on-going strategic planning process is important to all institutions for setting direction, goals, and objectives and establishing strategies for reaching goals and objectives. At the core of sound strategic planning are four basic components which should be addressed:

- 1) Where are we now?
- 2) Where do we want to be?
- 3) How do we get there?

4) How do we measure our progress?

Sound strategic decisions are essential for an institution to compete and be profitable. Well executed strategic planning provides management with the tools needed to confirm goals and assess progress toward a desired outcome (such as asset and capital growth), evaluate what is effective and what is not, and adjust strategies to improve performance especially when adding new business lines or products. An effective strategic planning process is dynamic and allows management to adapt to changing market, business and technology needs. Thus, the Department strongly recommends that all banks and trust companies engage in regular, formal strategic planning sessions on at least an annual basis as a means of ensuring that the institution's actions are in alignment with its mission and goals.

Applications Requiring a Business or Strategic Plan

Business Plans

A business plan is critical to the Department's decision of whether to approve the organizer's charter proposal. A well-defined business plan including financial projections, analysis of risk, and planned risk management systems and controls enables chartering authorities to more effectively gauge the probability of success of a proposed entity. Business plans are required for certain types of corporate applications submitted to the Department, and may be requested with other types of applications.

A business plan is **required** by the Department on all new charters, including:

- De novo applications; or
- Applications to change from exempt to nonexempt status or vice versa for a trust company.

If an institution encounters difficulties, a business plan provides a means for regulators and boards of directors to coordinate an effective improvement program. Thus, a business plan also may be required as part of administrative actions or enforcement orders involving troubled institutions.

Strategic Plan

Depending on the **significance** of the proposed change for the entity, the Department **may also require** a strategic plan be submitted with applications involving:

- Bank/Trust Company conversions;
- New branches;
- Change of control;
- Change of home office;
- Mergers; or
- Purchase and assumption transactions.